

June 19, 1998

Dorothy Nelsen, Sr. Executive Assistant
Wholesale Branch
Seattle City Light
700 Fifth Avenue, 32nd Floor
Seattle, WA 98104

Subject: Skagit Housing Review

Dear Ms. Nelsen:

Attached please find my report for the subject review. Please let me know if any clarifications or changes are still required.

I thoroughly researched the option of moving the houses east on Highway 20. This is not possible because the State will not allow anything over 16 feet in width to move more than five miles. The houses could be chopped in half. However, the full cost of de-mobbing and mobbing and transportation would be over \$50,000 per house. This appears to be cost prohibitive.

I will delivery a hard copy of the report on Monday afternoon. Please feel free to call me at anytime.

Sincerely,

Susan L. Kraght, CPA

Attachment

cc: Susan Cohen, City Auditor

SKAGIT HOUSING **ALTERNATIVES FOR THE HOLLYWOOD DEVELOPMENT** **REVIEW REPORT**

BACKGROUND

The Skagit project has three hydroelectric power dams on the Skagit River: Gorge, Ross, and Diablo. To house project employees, City Light maintains permanent and temporary rental housing. The housing is comprised of three developments: Newhalem, Hollywood, and Reflector Bar. Newhalem is located near Gorge Power House. Hollywood and Reflector Bar (Diablo) are located next to Diablo Power House. A seven mile road separates Diablo from Newhalem. Employees designated as "Key Employees" receive free housing and electricity. The remaining houses are rented on both a permanent (renter) and temporary (bunkhouse) basis. Figure 1 displays the number of houses and current uses.

Figure 1 - Current Housing Status	Newhalem	Hollywood	Reflector	Total
Key Employees	8	5	7	20
City Light Employees/Renters	7	2	2	11
Outside Renters	4	1	0	5
Free Houses/Daycare/Bus Driver	2			2
Bunkhouses (# of Structures)	4	11	1	16
Apartments Used As Bunkhouses	2			2
Vacant	4	4	3	11
Total	31	23	13	67

At the present time, City Light is not renting out vacant housing at Skagit. When an occupant moves out, the house remains vacant. This policy is in place until City Light determines whether to maintain or demolish the Hollywood development.

REVIEW OBJECTIVE

1. To provide a simplified written outline of the housing environment at Skagit.
2. Prepare three year historical financial statements for Skagit Housing.
3. Provide ten year financial impacts for feasible alternatives for the Hollywood Development.
4. Address issues related to the financial viability of housing at Skagit.

REVIEW SCOPE AND METHODOLOGY

In performing this review, we interviewed officials of City Light (Seattle and Skagit based), analyzed financial data, reviewed prior studies, surveyed local housing, toured Skagit housing, observed Skagit operations, reviewed administrative documents at Skagit, and interviewed environment consultants, residential demolition contractors, and house movers. We formed our conclusions based on the data and information provided by these sources.

SUMMARY OF FINDINGS

Based on City Light's work order system, the costs for maintaining Skagit housing exceeds revenues. A profit and loss statement was constructed for years 1995-97 and four months of 1998 for all of Skagit housing as costs are not collected for individual housing developments, (Figure 2). The numbers for 1995-97 were taken from City Light's work order and financial systems. Where the systems did not have separately identified costs, estimates were made based on information gathered during the audit. The four month 1998 numbers do not represent an absolute trend for 1998 as seasonal maintenance employees work mostly during the summer months.

Figures 2 - Profit and Loss Statement

SKAGIT HOUSING	1995	1996	1997	1998(*)
Revenues				
Rental Revenue	\$ 81,210	\$ 64,082	\$ 72,268	\$ 19,872
Skagit TV	\$ 2,830	\$ 1,995	\$ 1,975	\$ 860
Telephone	\$ 5,678	\$ 16,660	\$ 19,652	\$ 4,913
Garbage	\$ 1,363	\$ 1,174	\$ 1,092	\$ 516
Electric (Estimate)	\$ 39,600	\$ 32,400	\$ 28,800	\$ 10,200
Total Revenue	\$ 130,681	\$ 116,311	\$ 123,787	\$ 36,361
Expenses				
Preventive Maintenance	\$ 18,378	\$ 66,681	\$ 58,955	\$ 22,282
Corrective Maintenance	34,424	52,046	31,284	w/preventive
Skagit TV	3,437	7,648	3,787	1,262
Telephone	5,678	22,669	28,986	9,662
Garbage (Estimate)	46,150	42,600	35,500	11,833
Roof Repair/Storm			6,195	
Garden Service (Estimate)	52,260	52,260	52,260	17,420
Depreciation	11,246	11,246	11,246	3,749
Total Expenses	\$ 171,574	\$ 255,151	\$ 228,213	\$ 66,208
Net Loss	\$ (40,892)	\$ (138,840)	\$ (104,426)	\$ (29,847)
* Four Months Actuals for Maintenance Expenses/Others are Estimates				

The actual "net loss" is probably much greater then the "net loss" on the profit and loss statement. Several Skagit employees stated that labor and expenses charged to housing work orders did not always represent the labor and materials used for housing maintenance purposes. We were unable to fully substantiate this claim. However, several inferences are worth mention.

1. Housing maintenance costs can be charged to general maintenance work orders.
2. Downtime for maintenance employees is charged to general maintenance work orders.

3. Overhead costs associated with housing maintenance are not factored into the profit and loss statement.
4. Costs charged to non-Skagit work orders (telephone cards) are included in the profit and loss statement.
5. Capital projects are depreciated, straight-line, using a 45 year life. This is not realistic and gives the impression that the total costs of Skagit housing includes only operations and maintenance.

Taking these costs described above into consideration, the net loss could easily be two times the verifiable amounts in Figure 2. This is supported by the fact that the 1998 facility's operations and maintenance budget (no capital) is \$2,619,063 with \$804,832 spent as of April 1998 while the Skagit cost collection system shows only \$22,282 or 2.77% of the actual costs were spent on housing. This does not make sense and leads us to believe the housing costs are understated.

Maintenance is not the only type of cost associated with providing housing at Skagit. In addition to the types of costs in the profit and loss statement, City Light has additional expenditures associated with Skagit housing. These expenditures are related to "quality of life" for Skagit residences. Examples of these expenditures are follows.

1. The Daycare facility which provides care for three full time and two part time children, (only one is child is related to a City Light employee), costs the City approximately \$7,675 per year.
2. The yearly cost of the school bus driver is \$5,175. 14 children residing at Skagit utilize the bus service. Not all of the children are related to City Light employees.
3. The cleaning and administration of bunkhouse rentals was \$59,580 in 1997 or \$30.52 per rental night. (Cleaning service is not provided on a nightly basis only on check-out.) With maintenance, (excluding capital improvements), the per night cost in 1997 was \$59.06.
4. A new swimming pool cover will cost \$120,000. The pool uses \$65,000 of electricity per year and one waste water treatment operator four to eight hours per week. The pool is mainly used by seasonal non-resident crews.
5. City Light maintains a staffed and fully functional cookhouse for a small number of visitors in the non-summer months.
6. City Light pays Whatcom County \$42,000 for staffing the Skagit library three days a week.

Adequate temporary rental housing exists locally and in Newhalem to accommodate employees and contractors traveling to Skagit for business purposes. The 11 Hollywood bunkhouses are used to house City Light employees and contractors. In addition, three tour guides use one bunkhouse in the summer months. As displayed in Figure 3, Newhalem has 54 room in four facilities and Reflector Bar has one bunkhouse.

Figure 3 - Skagit Temporary Housing

Bunkhouse Availability	Rooms	# of Facilities
Newhalem	54	4
Hollywood	33	11
Reflector Bar	3	1
	90	
Note: Three rooms per bunkhouse used for this figure		

Figure 4 displays the available rooms versus occupancy from January 1997 through April 1998. The highest occupancy rate was 13.2%. In total, the bunkhouses were under-utilized.

Figure 4 - Bunkhouse Occupancy Rates in Days

1997/98	Occupied	Available	Unoccupied
January	80	2,790	(2,710)
February	81	2,520	(2,439)
March	65	2,790	(2,725)
April	124	2,700	(2,576)
May	99	2,790	(2,691)
June	146	2,700	(2,554)
July	169	1,984	(1,815)
August	262	1,984	(1,722)
September	226	2,700	(2,474)
October	254	2,790	(2,536)
November	48	2,700	(2,652)
December	79	2,790	(2,711)
January	79	2,790	(2,711)
February	81	2,520	(2,439)
March	168	2,790	(2,622)
April	149	2,700	(2,551)
Totals	2,110	42,038	(39,928)

The available temporary housing decreases in July and August because two bunkhouses in Newhalem are used for children's camp. (No children's camp is planned for 1998 or 1999.) The other two bunkhouses in Newhalem provide an additional 868 room per month. The bunkhouse at Reflector Bar is available if travel to Newhalem is impossible. (Every two years the road between Newhalem and Diablo closes for a few days due to snow.) Even without Hollywood's bunkhouses, plenty of temporary housing is available in Skagit.

If temporary housing is full at Skagit, other alternatives (besides Hollywood) are available. Hotels in Marblemount and Concrete can provide housing for 2,511 individuals per month.

Figure 5 - Alternate Temporary Housing

Facility	Location	Rooms	2/Room	Winter	Summer
A Cab in the Woods	Marblemount	5	Yes	\$55	\$65
Clark's Cabins	Marblemount	23	Yes	\$49-\$98	\$52-\$109
Log House Inn	Marblemount	5	No	N/A	\$27-\$30
North Cascade Inn	Concrete	14	No	\$45	\$45
Heritage Inn and Bed and Breakfast	Concrete	6	No	\$70-\$105	\$80-\$115

As stated above, the average cost for providing temporary housing for one person is \$59.06 per night. (If the expenditures for the Hollywood bunkhouses were priced separately, this figure would increase as three of the Newhalem bunkhouses sleep 13-25 people.) The average variable cost of the bunkhouses is comparable to other available housing. City Light would not incur additional expenses by using alternatives to Hollywood for temporary housing. Three of the above hotels (1,922 individuals per month) were inspected and found to be clean and deemed adequate.

Housing is available for employees currently living in Hollywood. One of the major complaints voiced by Hollywood demolition critics is that housing in Concrete, Marblemount, and other small towns on Highway 20 is substandard. The primary evidence against this argument is that if Hollywood was demolished, the eight employees currently living in Hollywood could move to vacant houses in Reflector Bar and Newhalem. Substandard housing conditions for Skagit employees, currently living in Hollywood, is not necessary. In addition, we inspected housing in Concrete and found three listed in the *Skagit Valley Harold* clean and adequate. Prices and sizes were \$650 for a 3 Bedrooms/2 Bathrooms, \$750 for a 3 Bedrooms/1 Bathroom (very nice), \$500, 2 Bedrooms/1 Bathroom, and \$500 for a 2 Bedrooms/1 Bathroom.

Mount Vernon is over 60 miles from Diablo. Commuter bus service and adequate housing is available in Mount Vernon. However, the travel distance and road conditions can be prohibitive during heavy winter storms.

In comparing the financial impact of maintaining or demolishing Hollywood, demolition will be less expensive over the long run. The only three feasible alternatives, for the Hollywood development, that comply with the licensing agreement and State regulations are the following.

1. Rent all Hollywood housing to City Light employees and the public at large. Continue to use Hollywood bunkhouses as temporary housing to City Light employees and contractors.
2. Demolish all 23 houses existing in Hollywood. Use the Reflector Bar bunkhouse for City Light employees and contractors required to stay in Diablo during the Winter months.
3. Continue using Hollywood in its current state as the houses may not have a reasonable rental market value.

The ten year, estimated financial impact for the above three alternatives are on Figure 6.

Figure 6 - Estimated Ten Year Financial Impact of Maintenance Versus Demolition of the Hollywood Development

Ten Years Estimates (1999-2008)	Alternative #1	Alternative #2	Alternative #3
Revenues			
Rental Revenue	\$ 328,434		\$ 107,760
Skagit TV	14,400		2,880
Garbage	14,400		4,800
Electric	145,605		145,605
Total Revenues	\$ 502,839		\$ 261,045
Expenses			
Preventive and Corrective	\$ 429,569		\$ 429,569
Capital Improvements	333,000		333,000
Skagit TV	7,385		7,385
Telephone	13,200		13,200
Garbage (Estimate)	176,915		116,764
Garden Service	248,776	\$ 248,776	248,776
Demolition & Disposal		195,500	
Basement Disposal		23,000	
Environmental Survey & Spec		38,000	
SPU - Construction Management		42,750	
City Light - Project Management		40,500	
ESD Charges		5,000	
Total Expenses	\$ 1,208,845	\$ 588,526	\$ 1,148,694
Net Loss	\$ (706,006)	\$ (588,526)	\$ (887,649)

Except for Alternative #3, which assumes status quo, the pro-forma statement makes the following assumptions.

1. The use of five houses for key employees (rent free), four houses for City Light employees (\$259.00 per month), three houses for non-City Light employees (\$380.00 per month), and eleven houses as bunkhouses. Rents are increased by five percent per year starting with a 1999 base year.
2. Television service is increased from \$5.00 to \$10.00 per month which better reflects a market rate for basic cable. The cost of maintaining Skagit television service is estimated at \$4,000 per year which is divided equally among 65 units, (two Newhalem bunkhouses do not have television service).
3. Garbage service is increased from \$3.00 to \$10.00 per month which better reflects a market rate. The cost of garbage is 50 percent of the 1997 cost divided by 64 houses. Escalation is calculated at 5 percent per year starting with a 1997 base year.

4. The electric utilities revenue is calculated at \$150 per month for seven rental houses. (Key Employees receive free electricity.) Escalation is calculated at 5 percent per year starting with a 1997 base year.
5. 1997 actual costs are used to estimate preventive and corrective maintenance costs. Escalation is calculated at five percent per year starting with a 1997 base year.
6. Capital improvements estimates are taken from the preliminary report, "Diablo/Hollywood Housing Reassessment", dated May 18, 1998. These improvements include \$20,000 for two metal roofs, \$21,000 for five bathroom remodels, \$95,000 to add second bathrooms, \$5,000 for new kitchen cabinets, \$28,000 for new floors, \$7,000 for exterior door replacements, \$150,000 for thermal windows, and \$6,000 for a floating pump. These items agree with our understanding of needed improvements. The estimates may be significantly deflated given our discussions and observations at Skagit.
7. The telephone costs are estimated at \$10.00 per month for each bunkhouse. Other telephone revenues and costs are not included as it is assumed tenants are paying all telephone costs, (revenues should equal costs). This assumption is the same for Alternative #3.
8. Garden services remains the same with or without housing. However, Hollywood resident should be required to maintain their own yards.
9. The demolition and disposal estimate is \$8,500 per house. This figure is based on a current City Light contract. Estimates provided by large residential demolition contractors were actually lower than \$8,500.
10. \$1,000 per house is used for burying the sidewalks and basements. This estimate was provided in "Skagit Facilities Review Project Summary", dated February 2, 1996.
11. Consultant charges for survey, testing, and specification preparation were estimated at \$38,000 based on discussions with a reputable engineering firm.
12. Construction management was estimated based on 300 hours at \$62.50 per hour for specification preparation/administration and \$800 per day for 30 days of inspection.
13. City Light project management was estimated based on 1,000 hours at \$30.00 per hour with a 35% fringe benefit rate.
14. ESD charges were plugged at \$5,000.
15. Depreciation is not included.

Two other alternatives exist if permission to alter the licensing agreement is granted. They are as follows.

1. Rent all Hollywood housing, except three bunkhouses, to City Light employees and the public at large. Reserve four to five bunkhouses for employees of the Environmental Learning Center. Continue to use the three remaining Hollywood bunkhouses as temporary housing to City Light employees and contractors.
2. Demolish 18-19 houses in the Hollywood development. Use the remaining four to five bunkhouses for employees of the Environmental Learning Center.

The ten year, estimated financial impact to City Light for the above two alternatives would be similar to the impacts on Figure 6. The purpose for discussing these alternatives is that currently the licensing agreement requires City Light to provide on-site housing for the Environmental Learning Center employees. If agreement could be reached to utilize the available bunkhouses in Hollywood, it could save City Light significant amounts of money. New bunkhouses would not have to be built.

Based on the opinion of Power House and Facilities Supervisors, not enough skilled employees live in Hollywood and Reflector Bar to adequately respond to major emergencies. In addition, the housing is needed to recruit skilled employees. There is serious concern amongst Skagit management that if free, or low cost housing, is not available to new employees, recruitment will be difficult. In addition, Skagit management is seriously concerned that the low number of employees (16) living in Diablo is not enough to respond to major emergencies under severe weather conditions. However, it should be noted that City Light employees are not forced to remain in Diablo during off-hours. Many in fact, have second homes outside of the Skagit area.

Adequate evidence does not exist to support the ability to rent the houses in Hollywood to City Light and non-City Light employees. Even if the vacant houses in Hollywood, as well as Reflector Bar, were available for rent, it is not clear seven potential tenants exist. Skagit Administration does not maintain a waiting list. From discussions with various Skagit employees, we found employees will rent available houses at Newhalem, but will only accept free housing in Hollywood.

If City Light is inclined to provide housing at Skagit in a cost-effective manner, changes are mandatory. Alternative #1 in Figure 6 already assumes several changes including increased rates for garbage and television; collection of all telephone charges, (except for the bunkhouses); and yearly rent increases. Other changes should be considered. A few ideas are outlined.

1. As discussed in the "Skagit Facilities Review Project Summary", the definition of "Key Employee" could be revised. Over the next ten years, the expenses for rent and utilities associated with 20 Key Employees is approximately \$2.5 million. Key employees living in Newhalem do not impact operations at Diablo during severe weather condition. The avalanche areas on the road are between Newhalem and Diablo. In addition, most Key Employees are not required inside the Skagit project during off-hours.
2. It may be more cost effective to hire outside contractors for facilities maintenance and capital projects. The main reasons for hiring contractors versus employees is the seasonal nature of outside maintenance and corrective maintenance is difficult to anticipated. Hiring contractors can reduce the non-project time of employees.